

SENATE BILL REPORT

SB 5671

As of February 13, 2009

Title: An act relating to the suitability of annuities sold in Washington.

Brief Description: Requiring annuities sold in Washington to be suitable to the age and financial situation of the purchaser.

Sponsors: Senators Berkey, Franklin, Shin and Haugen; by request of Insurance Commissioner.

Brief History:

Committee Activity: Financial Institutions, Housing & Insurance: 2/10/09.

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS, HOUSING & INSURANCE

Staff: Philip Brady (786-7460)

Background: The Insurance Commissioner (the commissioner) oversees insurers; insurance producers; insurance solicitors and adjusters; and the market practices of those persons and entities. This includes the sale of fixed and variable annuities.

The Department of Financial Institutions (DFI) regulates sales of most securities, and requires that people selling securities make recommendations that are suitable to the client. Fixed annuities are specifically excluded from DFI's regulation of securities and are not subject to the suitable recommendation requirement. Variable rate annuities are considered securities and are subject to the suitable recommendation requirement.

Summary of Bill: Annuities sold in Washington must be suitable to the age and financial situation of the owner. The commissioner is directed to examine standards provided by national organizations, other states, and other agencies within the state, and to adopt rules addressing the marketing, advertising, and sales of suitable annuities. The commissioner is also directed to adopt a summary disclosure form for annuities, which must include a clear, written description of the annuity.

Sellers of annuities must obtain sufficient information from the prospective purchaser to determine and verify the suitability of the annuity, and may not recommend unsuitable annuities. Purchasers of annuities must be provided the summary disclosure form either at the time of solicitation or at the time the contract is delivered.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Appropriation: None.

Fiscal Note: Requested on February 7, 2009.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: This is about consumer protection. Annuity products are increasingly complicated, and clients rely on their agents. Clients are typically older persons looking for yearly income, and are often vulnerable. Thirty-nine other states require suitability for annuities, including Oregon and Idaho. Some annuities are already covered under securities suitability requirement, and this would cover the unprotected annuities.

CON: Suitability requirements are good. The model act has an exemption for people who comply with the securities side, but this bill doesn't. It should.

OTHER: Suitability requirements are good, but this is not the model language that has been adopted in 31 states. Complying with the model language would be simpler for sellers of these products.

Persons Testifying: PRO: Drew Bouton, Office of the Insurance Commissioner.

CON: Bill Stauffacher, Securities Industry and Financial Markets Association.

OTHER: Mel Sorensen, American Council of Life Insurers.